

Revised GCC Instructions and Template FAQ

June 2, 2020 Version

General:

Q1. How does the revised version interact with discussions related to amending the Insurance Holding Company System Regulatory Act (#440)?

- A. The revised template and instructions will adapt to the decisions made relative to what groups will be required to file a Group Capital Calculation (GCC). No changes are needed in order to accommodate the decisions on the wording in the Model Act. The Group Capital (E) Working Group (GCC WG)

Q2. How does the information captured in the revised version interact with the development of analytics and regulator guidance?

- A. Data collected in the GCC template, particularly in Schedule 1, the Inventory Tab and the Capital Instruments Tab are the sources for the metrics provided in the analytics Tab. A small drafting group made up of regulators and interested parties will use the initial draft analytics guidance to suggest any additional data that should be captured in the template. They will report back to the GCC WG at the conclusion of their work.

Q3. When does the GCC WG expect to adopt the GCC template and instructions?

- A. The short answer is at some point after the public comment period that ends on July 19, 2020. How soon after the comment period the GCC is adopted by the Working Group will be determined by the extent of comments received; the amount of additional work to be done by the Working Group; and completion of the Analytics Drafting Group's work. Once adopted by the Working Group, the GCC will go to the E Committee and ultimately to Executive / Plenary for full NAIC adoption.

Q4. When is it expected that a live version of the GCC template and instructions will be implemented?

- A. Once the GCC Template itself is fully adopted, implementation will occur based on NAIC adoption of revisions to the Insurance Holding Company System Regulatory Act (#440) and subsequent State specific enactment of the law. The goal is to have the GCC fully in place by year-end 2022

Q5. What are the main thematic changes to the GCC materials compared to the 2019 field test version?

- A. The following changes have an overarching impact on the revised GCC Template and Instructions:
- Expanded language on how entities outside the defined insurance group could be excluded from the GCC scope of application.
 - Expanded opportunities for the grouping of non-financial entities and narrowing capital calculation options to two.
 - A potential course for removal of an informational sensitivity analysis for XXX/AXXX captives.
 - Expanded collection of "other information" useful for lead-state analysis or to inform future GCC enhancements.
 - Added, deleted and relocated data entries on Schedule 1, the Inventory Tab, and in other areas of the instructions/template

- The addition of an attestation.
- The addition of an Analytics Tab and separate Guidance (To be further developed by a joint regulator / interested party drafting group)

Q6. What changes are directionally included (coded into) the revised GCC version?

- A. Changes to or selection from alternative tested in the field test are based on comments received, additional data identified or NAIC staff recommendations. These include:
- Additional / deleted information on Schedule 1
 - Selection of an equity-based factor in the base capital calculation for non-financial entities and non-operating holding companies.
 - Addition of a two-step approach to establishing an allowance for senior and hybrid debt as additional capital, including the reporting of paid-in and contributed capital.
 - Selection of proxy allowance for senior debt (30%) and hybrid debt (15%).
 - Selection of a single scalar option for certain jurisdictions based on the Pure Relative Ratio Approach.
 - Limiting the allowance of additional capital from debt to 50% of total adjusted carrying value.
 - Collecting information on the source of foreign currency conversion.
 - Additional or revised sensitivity analysis items.

Q7. What is the intent of options that are included in the revised GCC version?

- A. Options are generally included as alternatives to directional selections that are coded into the template in the base GCC calculation. Some examples include:
- Option for additional granularity in capital calculations for financial entities without regulatory capital requirements and for non-financial entities.
 - Option to apply a capital calculation only to positive value Holdcos rather than the current netting of values.
 - Option to include additional capital allowance from debt in the value of the issuing entity rather than as an on-top adjustment.
 - Option to use revenue-based capital calculations rather than an equity-based charge for non-financial entities or to assess either option based on the nature of the entity's operations. *
 - Option to use scaled BASEL charges for capital calculations applies to certain financial entities without regulatory capital requirements. *
 - Option to apply full value of jurisdictional capital requirements to foreign insurers. *

*These options are currently included in the sensitivity analysis

Q8. What suggested courses of action / decision points have not yet been coded into the GCC template?

- A. While comments are welcome for all items under Questions 5 through 8, feedback is specifically requested on these items which either provide a framework for consistency or require adjustment to methodologies and data collected. Examples include:
- Inclusion of guiding principles and / or criteria for excluding non-financial entities from the GCC scope of application.
 - Clarifying modifying the definitions and / or thresholds for what is a financial entity vs. non-financial entity.

- Adding criteria for “tracked down streamed’ debt and whether that category should be dropped from the template in favor of relying on “paid-in and contributed capital” compared to a proxy calculation.
- Proposals for alternatives for scalars and for the treatment of jurisdictions with less developed capital requirements.
- Adjustments to the analytics Tab and Guidance (To be further developed by a joint regulator / interested party drafting group.
- Proposed treatment of material non-financial Schedule BA affiliates.

Q9. Must all entities within the group be included in the template?

- A. All entities within the defined insurance group must be included in Schedule 1 and in the Inventory Tab (subject to grouping and de-stacking instructions and Schedule A / BA exclusions). This would apply to all cases where the Ultimate controlling Person (UCP) is an insurer. All financial entities in the larger group where a non-insurer is the UCP must also be included. Two potential ways to exclude non-insurance entities outside the defined insurance group are described in the instructions:
- In most cases via request by the Group to exclude certain non-financial entities that do not pose material risk. The lead-State may accept the request for all or some entities while rejecting it for others. Where entities are accepted for exclusion in this way the entities should appear in Schedule 1 and in the Inventory Tab, values will still be reported on Schedule 1, but zero values will be reported in the Inventory Tab on columns 1 and 2 in Inventory B and Inventory C.
 - In more limited cases of large decentralized groups, a reduction in scope of application up front may be requested or agreed upon by the lead-State prior to submission of the GCC Template, which could result in non-financial segments of the group being excluded. In such cases, a question remains as to whether all excluded entities should not appear on the Template or be listed, but no values provided either in Schedule 1, the Inventory Tab or both. This is something that the analytics drafting group may address.

Q10. How does the revised grouping and de-stacking impact Insurer led groups vs. non-insurer led groups?

- A. Both types are subject to the same guidance on grouping (i.e. financial and non-financial entities may be grouped with data provided at the intermediate parent level and the remaining entities listed with zero values in Schedule 1 and in the Inventory Tab.

Regarding de-stacking, groups with an RBC filing U.S insurer as the UCP, do not need to de-stack directly owned RBC filers or indirectly owned RBC filers where there is a look-through to the RBC of the indirectly owned insurer. An exception is that financial entities with regulatory capital requirements must be de-stacked. Other financial entities will be de-stacked based on the ultimate definition of a financial entity. Absent financial entities, the RBC ratio (@ 300% x ACL calibration) of the UCP insurer will be the GCC Ratio.

For groups with a stock non-insurer UCP, no non-financial entities need to be de-stacked from any RBC filer within the group. Furthermore, RBC filers that are directly own RBC filers or indirectly owned RBC filers where there is a look-through to the RBC of the indirectly owned insurer, need not be de-stacked. All other financial and non-financial entities must be de-stacked (subject to exclusion and grouping criteria in the instructions).

Q11. How were the parameters for including an additional allowance for senior and hybrid debt determined?

- A. The current methodology for including an additional allowance for available capital continues to be based on the concept of structural subordinations. It incorporates elements from the field testing and adds a new data point for Paid in and Contributed Capital and Surplus. The calculation is done in two steps based on comparison of three data points (rather than two as was done in the field test) as follows:
- The first step retains the concept of “tracked downstream debt” but compares that amount with a new data point, paid-in and contributed capital and surplus as reported by the U.S. insurer. Distribution of paid-in capital is strongly subordinated to regulatory approval. The greater amount is carried forward for comparison with Step 2.
 - Step 2 applies a proxy approach as was done in the field test. However, a single proxy calculation was selected from the field test options based on using the point where approximately 90 percent of all senior and hybrid debt issued and outstanding by field test volunteers reporting qualifying debt would be counted as additional capital as of 12/31/18. The qualifying criteria for senior and hybrid debt to become part of the proxy calculation have not changed. As in the field test, the proxy calculation is limited no more than 100% of senior and hybrid debt outstanding.
 - The greater Value from Step 1 or Step 2 is the additional capital allowance. This is subject to an overall limitation of 50% of available capital without the additional allowance.

The options of adding defined criteria for “tracked down-streamed debt” or eliminating “tracked down-streamed debt” as a data point in Step 1 are remaining decision points.

Q12. Will the Capital **Instruments** Tab include all capital instruments issued by all companies in the group?

Yes, but only to the extent that data for the issuing entities is included in Schedule 1 and the Inventory Tab. This would include all issuers within mutual led groups. For groups with Stock Hold Cos, there will be no debt reported for any issuer of senior or hybrid debt that has been excluded from the scope of application of the GCC ratio. Thus, if the issuer is not listed (or is listed but designated excluded by the lead-state) in Schedule 1 and the Inventory Tab, there will be no allowance for additional capital from senior or hybrid debt calculated.

Q13. How does the 300% x ACL calibration level proposed for the GCC ratio relate to the 175% x CAL (350% x ACL) referred to in the proposed analytics document?

- A. The 300% x ACL is the RBC trend test level that was selected as the calibration for RBC filers in the group and for all scaling against RBC filers where applicable. The 175% x CAL (350% x ACL) is suggested for the analytics to reflect an interaction point where the GCC ratio is trending downward toward the 300% level. It is like indicators used for RBC evaluation in the NAIC Financial Analysis Handbook

Q14. Explain the status of the XXX /AXXX captive sensitivity test.

- A. This sensitively test is expected to be removed after the Group Solvency Issues (E) Working Group completes a data call to confirm the impact of the test is immaterial to the industry as a whole, therefore

unnecessary, and for those groups where this is material, advisory communication to the lead state from the Group Solvency Issues (E) Working Group on how best to monitor this going forward.

Q15. Is the template sufficiently developed for a group to insert data and review the manner in which the template calculates a GCC ratio?

- A. Yes, for the most part the template is sufficiently developed to use with real or dummy data. There are some placeholder formulas such as in the sensitivity analysis tab, but basic functionality is all there and a base ratio can be calculated.